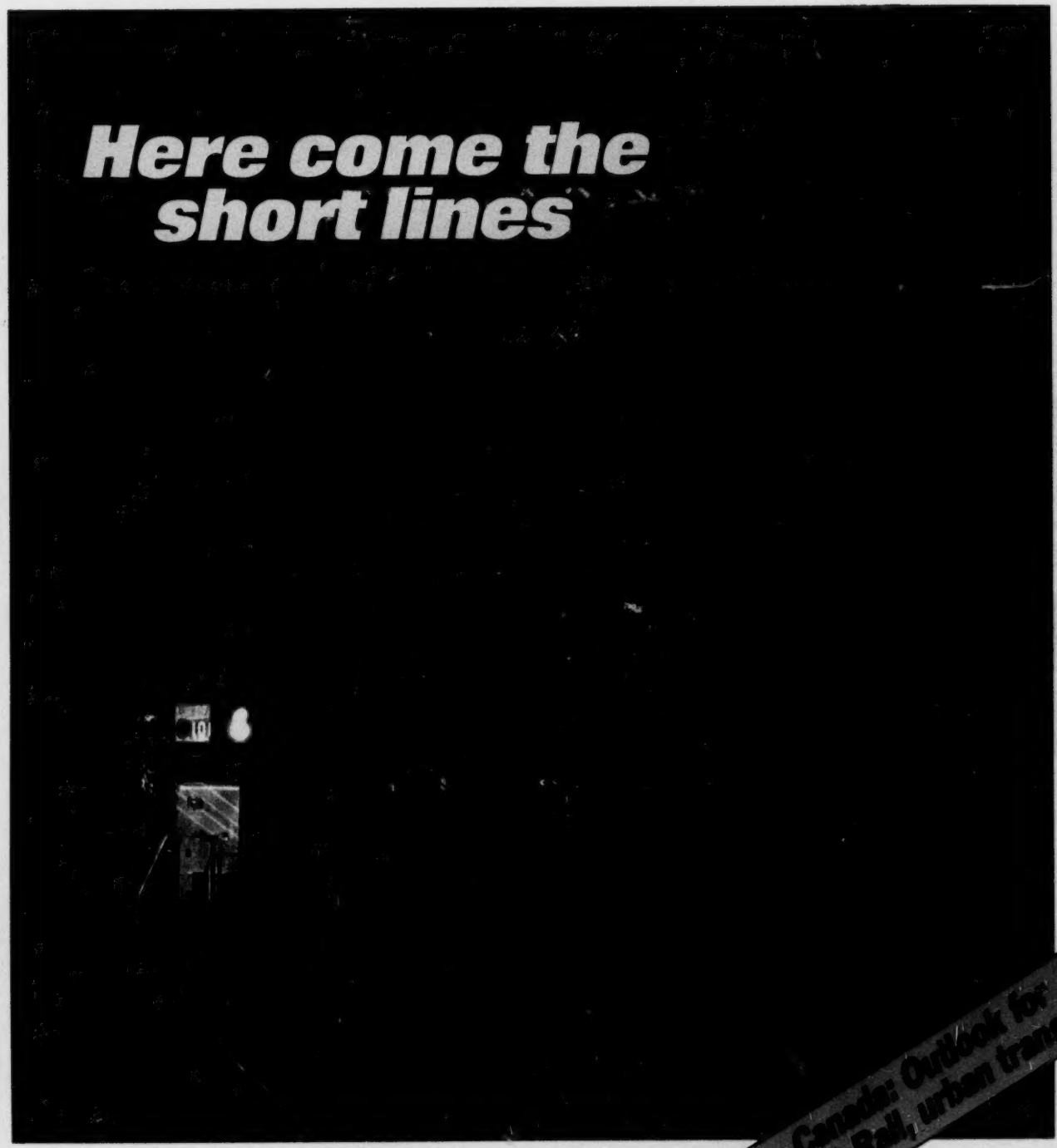
C8400-1

June 1986

Railway Age

...for the new age of railways

Here come the short lines



Canada: Outlook for VIA Rail, urban transit

Railway Age
...for the new age of railways

June 1986

Features

31 High-productivity railroading: The "people" factor

Management and labor have tacitly agreed on the need for improved productivity. Can they now move from the tacit to the explicit before they are overtaken by more productive competitors?

35 Here come the short lines

The 400-plus short lines now in business have shown that they can provide regional service more cheaply and efficiently than the line-haul carriers; as a result, their ranks keep growing.

44 HPIT: Many questions, few answers

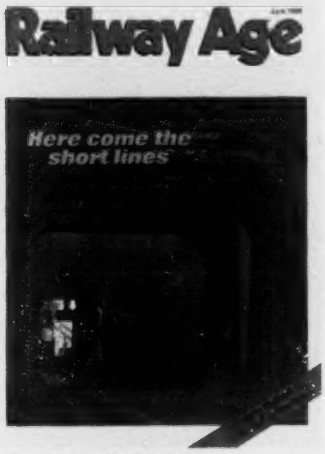
The High-Productivity Integral Train Project needs more R&D money, and greater assurance that railroads will be willing to buy the end products, before it really takes off. But it's beginning to move.

47 Sand: There's still no substitute

It can foul ballast, and it can prove to be abrasive in the trackwork. But sand continues to be essential to improve locomotive traction, just as it has been for the last 140 years.

64 Canada marks a milestone

A century and a half after the first passenger trains operated in Canada, Expo 86's SkyTrain is reminding Canadians of the important role passenger railroading still plays in their daily lives.



Allegheny Railroad photo by Kent Patterson

Update

23 FRA rule sanctions end-of-train devices
23 BN installs swing-nose frog in Nebraska
23 Railroads win big in arbitration award
23 Caboose laws: One out, three to go
24 CP's a.c. locomotive ready for road
24 DIGITAIR customers get service center
27 Southern again wins Harriman gold medal
27 RAIL offers extra liability coverage
27 Sillcox tops list of History Awards winners
28 Canadian roads want U.S.-type reforms
28 Computer-equipped GP-60s in SP test
30 Expediter trains help BN post intermodal gains
30 BC Rail track rehab in final phase
30 C&NW talks merger with several roads
30 CP to equip fleet with event recorders
56 Keep "Buy America," urges RPI committee
56 No Amtrak trains are profitable, says GAO
56 New TGV trains will cruise at 186 mph
56 VIA Rail, Air Canada offer Expo fares
56 From dining car to passenger station
57 Amtrak heads for record year—and a reprieve

Comment

6 Inside
19 Watching Washington
20 Lines on Labor
55 In Transit
78 Publisher's Perspective

Departments

8 Meetings
13 Industry Outlook
14 Market Outlook
67 People in the News
69 Track Train Dynamics Newsletter
73 Products Report
77 100 Years Ago

Published monthly by the Simmons-Boardman Publishing Corporation, 345 Hudson St., New York, N.Y. 10014 USPS 449-130, Vol. 187, No. 6

Subscription rates to all railroad, rail rapid transit employees and industrial traffic department employees in the U.S. possessions, Canada and Mexico: $12 one year, $22 two years; all other countries $35 one year. All other subscriptions in the U.S., Canada and Mexico: $30 one year; all other countries: $50 one year. All subscriptions payable in advance. Single copies $3 plus postage and handling, except special issues. Call toll free (800) 228-9670 Mon-Fri., 9a.m.-5p.m. to place order. In Nebraska call (402) 346-4300. Copyrighted © 1986.

Address all subscriptions, change of address and correspondence concerning them to Subscription Dept., Railway Age, 345 Hudson St., New York, N.Y. 10014.

Printed at Hughes Printing Co., 34 North Crystal St., East Stroudsburg, PA. 18301. Second Class postage paid by Simmons-Boardman Publishing Corp., 345 Hudson St., New York, NY 10014 ISSN 0033-8826. POSTMASTER—SEND change of address forms to Simmons-Boardman, 345 Hudson St., New York, N.Y. 10014.

Equipment

Amtrak: Is acquiring 74 new headend cars (50 ordered last year, and an additional 24 approved by the Amtrak board in March) at a cost of about $7 million. All to be delivered by July 1, the 61-foot cars have floors that can accommodate a heavy forklift which will enable Amtrak to compete for package business. Assembled at Thrall's Cartersville, Ga., plant, the cars have new Thrall-built bodies and BX trucks (Railway Express design) rebuilt at Amtrak's Beech Grove, Ind., shop. "These cars put us into a new category of construction," said a Thrall spokesman. "They look like boxcars on the inside and passenger-train cars on the outside." Amtrak's mail and express revenues in FY 1985 totaled $24.5 million, up from $17.5 million in FY 1984.

Massachusetts Bay Transportation Authority: A $12-million contract has been awarded to Westinghouse Electric for the supply of propulsion and auxiliary electrical equipment for 50 light rail cars that MBTA ordered earlier this year from Kinko Sharyo of Japan through C. Itoh (America), a trading company. Total value of the 50-car order (which supplements an earlier order for 50 cars now being delivered) is $60 million.

Southern Pacific: Will lease 300 new 100-ton-capacity bulkhead flatcars from Trailer Train for movement of lumber from the Pacific Northwest to Texas, Arizona and southern California. On order from Gunderson for July delivery, the cars weigh less than standard bulkhead cars but carry up to 25 tons more payload because of their upright center I-beam design. Also to be delivered to SP in July are 50 new 48-foot-long, 102-inch-wide intermodal containers that are being acquired from Flexi-Van; SP will load these as top units on double-stack cars.

Facilities

PATH: Directors have earmarked $5.7 million for preliminary design and property negotiations for a new car shop and yard in Harrison, N.J., that will replace a 75-year-old shop/yard complex in Jersey City. The new facility is to be in operation in 1991.

Revenue freight carloadings

Commodity	May 10 week	May 3 week	April 26 week	April 19 week
Grain	15,478	17,593	17,001	17,902
Other farm products	3,493	3,057	2,909	2,862
Metallic ores	16,982	14,668	17,094	16,534
Coal	107,903	111,030	112,483	112,079
Crushed stone, gravel and sand	15,154	14,645	15,297	14,161
Nonmetallic minerals	9,947	10,348	9,760	10,178
Grain mill products	10,418	10,109	10,173	9,908
Food and kindred products	10,691	11,326	11,122	11,138
Primary forest products	10,236	9,882	10,133	10,119
Lumber and wood products except furniture	7,966	8,505	8,450	8,473
Pulp, paper and allied products	12,393	12,868	12,352	12,234
Chemicals and allied products	25,708	25,361	25,795	26,547
Petroleum products	4,745	4,742	4,727	4,714
Stone, clay and glass products	10,450	10,885	10,552	10,754
Coke	5,077	5,265	4,854	5,179
Metals and products	8,582	9,458	8,600	8,234
Motor vehicles and equipment	21,602	22,136	22,867	22,910
Waste and scrap materials	8,171	8,315	8,538	8,907
Forwarder and shipper assn. traffic	2,787	3,256	3,182	5,487
All other carloads	73,036	71,331	67,599	65,372
LCL traffic	102	103	107	234
Total Cars Loaded	**380,921**	**384,886**	**383,595**	**383,926**
% change from previous year	(0.5)	(1.3)	(2.0)	(2.2)
Estimated revenue ton-miles (billions)	17.0	17.1	16.9	16.9
% change from previous year	0.2	(0.2)	(1.6)	(1.7)

Total:	1986	1985	% change
19 weeks	322.7	322.2	0.2

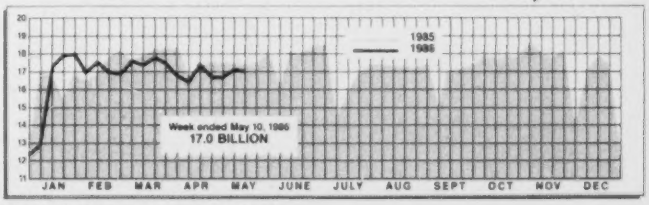
Piggyback loadings

	May 3 week	April 26 week	April 19 week	April 12 week
Trailers/containers	92,117	100,341	99,982	99,001

Cumulative total, 18 weeks		% change from 1985
Trailers/containers	1,735,669	14.8

Rail freight traffic trends

Billion ton-miles (Estimated)

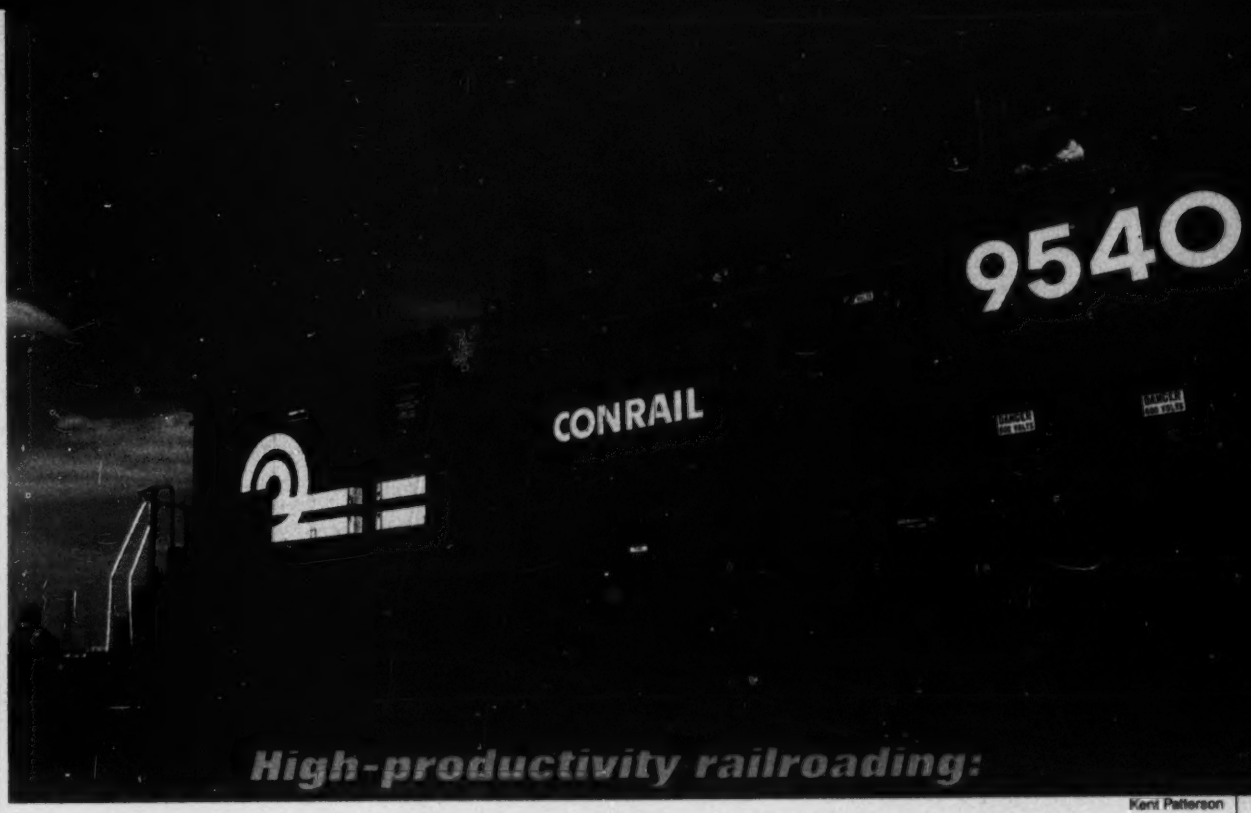


Source: Association of American Railroads

Freight cars

	DELIVERED			ORDERED			ON ORDER AND UNDELIVERED		
	April	4 months		April	4 months		May 1,	Average Backlog	
	1986	1986	1985	1986	1986	1985	1986	1986	1985
Built new by carbuilders	607	2,168	3,564	1,850	5,027	3,422	4,618	3,127	4,226
Built new in RR shops	0	0	336	0	0	0	0	0	70
Built new—total	**607**	**2,168**	**3,900**	**1,850**	**5,027**	**3,422**	**4,618**	**3,127**	**4,296**
Rebuilt	0	50	0	0	50	0	0	12	0
TOTAL	**607**	**2,218**	**3,900**	**1,850**	**5,077**	**3,422**	**4,618**	**3,139**	**4,296**
Locomotives (new and rebuilt)	76	134	135	N/A	N/A	N/A	190	190	256

Source: Transportation Div., AAR and American Railway Car Institute



Kent Patterson

High-productivity railroading:

The "people" factor

By GUS WELTY,
Senior Editor

Rail management and labor have been late in agreeing on ways to improve productivity. Competition, today, requires that they move more quickly and in a more positive fashion.

Conrail, once the "worst case" among major railroads in labor costs, is now more in line with the industry average—a main reason for its move from red to black ink. But all railroads must become less labor intensive if they are to survive in a capital intensive business.

All in all, it was a pretty straightforward proposition, or so it seemed.

Santa Fe was scheduled to operate a RoadRailer test for General Motors, Chicago to near Los Angeles and back. The consist would be a single locomotive unit and 31 RoadRailers. Westbound, the RoadRailers would haul motor vehicle parts. Eastbound, some of the units would carry set-up vehicles.

It was to be a one-shot, out-and-back operation.

It was to be a demonstration of capability using the RoadRailer equipment, one aimed at gaining new business and at retaining business that conceivably could be lost.

Santa Fe wanted to run the train with a two-man crew, just as Burlington Northern had been operating RoadRailer trains in another test for GM between Chicago and St. Louis. Santa Fe also wanted to operate over extended districts.

So, Santa Fe presented its case to the operating unions.

Representatives of the Brotherhood of Locomotive Engineers agreed. Most representatives of the United Transportation Union also agreed—most, but not all, with extended districts apparently being the sticking point.

Obviously, in such a situation, a railroad gets unanimity or it has nothing. In this case, Santa Fe had nothing, and so it decided to run the test train with supervisory personnel.

The unions went on strike, but the train ran. GM pronounced the test "highly successful," and that it was. Santa Fe completed the westbound run in 45 hours, 19 minutes including delivery by Southern Pacific via an interchange at Colton, Calif.

But that's not the end of the story.

Most often, in such circumstances, a railroad will head for a federal district court for a temporary restraining order to end the strike. Santa Fe didn't.

With the operating unions on strike and with most other employees honoring picket lines, Santa Fe kept right on operating.

Currently, the road's management-supervisory force numbers about 3,500 persons. About 20,000 persons are covered by union contracts.

Eventually, the walkout ended. The unions, perhaps perplexed by Santa Fe's tough stance, finally went to court themselves and an out-of-court settlement ensued.

But the strike lasted from a Saturday into the following Thursday. During that period, using supervisory personnel, Santa Fe handled about 80% of normal traffic, measured in cars originated and received from connections. Its supervisory forces were, to say the least, productive, and not just where main line traffic was concerned. As one example, a single supervisory crew serviced three branch lines in a day, a task that normally would have required three crews.

And as a footnote, at the Colton interchange, SP union crews took the RoadRailer train and delivered it with a two-man crew and without batting an eye.

Productivity.

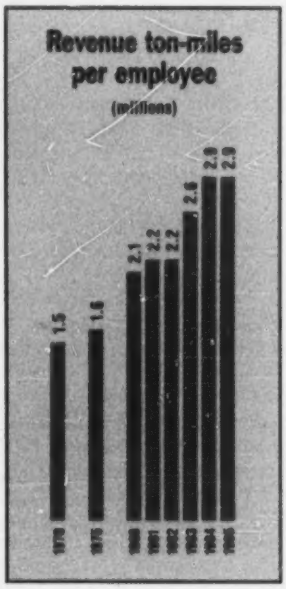
Many years ago, Florida East Coast showed what could be done if a railroad was willing to pay the cost of taking a strike and holding its position.

In the late 1970s, Norfolk & Western operated for close to three months while the Brotherhood of Railway and Airline Clerks was on strike.

Maine Central and other Guilford Transporta-

Freight traffic: Ups and downs

	Carloadings	Ton-miles	Originated Tonnage
1970	27.1 million	764 billion	1.48 billion
1975	23.2	754	1.39
1980	22.6	918	1.49
1981	21.6	910	1.45
1982	18.5	797	1.26
1983	18.8	828	1.29
1984	20.2	921	1.43
1985	19.4	875	1.32



tion Industries railroads have kept on running since early March when the Brotherhood of Maintenance of Way Employes struck MEC.

And now Santa Fe. In times past, Santa Fe has not had a reputation as a tough railroad in the labor context. Now it does.

New-breed short lines are also showing what can happen when improved productivity is cranked into a railroad operation. Some of these new railroads are non-union, some have negotiated agreements more favorable than those in existence when the short line was a trunk line's branch line. Many and perhaps most of these new carriers will make it, maintaining service for shippers, providing jobs and turning a profit for their owners. They're going to make it with segments of track that were consistent losers for former owners, segments of track that would otherwise have gone up for abandonment. Is it magic? Not really. It's productivity.

Consider again the trunk lines.

If you go back five, 10, 20 years and merely look at the numbers, you come away with a feeling that major railroads have made tremendous strides in improving productivity.

The most simplistic comparisons involve service and employment. Railroad revenue freight ton-miles are up, railroad employment is down. Railroads are producing more ton-miles per employee.

In a vacuum, the numbers might represent "tremendous strides" in improving productivity.

The problem is that railroads do not operate in a vacuum. Motor carriers, deregulated to an even greater extent than railroads, have made their own tremendous strides. Motor carriers have had legislative help, allowing increases in truck length, width and weight. Motor carriers have also had labor's help, in the forms of wage/benefit concessions and relaxation of work rules.

Aside from the partial deregulation provided under the Staggers Act of 1980, railroads have had no legislative help. Within the limitations of track gauge, clearance diagrams and weight-on-rails, railroads have improved their productive capability by spending money for such big-ticket items as higher-horsepower and more fuel-efficient locomotives, higher-capacity freight cars, more efficient track-maintenance machines.

Productivity improvements have come largely from the capital side.

But for railroads, unlike for motor carriers, there have been no concessions on wages or benefits.

And it was not until the signing of agreements with the United Transportation Union late last year and with the Brotherhood of Railway and Airline Clerks earlier this year that anything meaningful took place in terms of work rules or of contract provisions covering new employees.

In fact, it was not until the 1985 agreement with the UTU that the railroad industry finally got in place the procedures for the eventual elimination of the locomotive fireman's job, decades after the steam locomotive ceased to exist for anything more than railfan trips.

The UTU agreement did freeze arbitraries and it eliminated them for new hires. It put restrictions on the application of cost-of-living increases, tying them to scheduled basic wage increases. It created a two-tier wage system for present employees and new hires, but one in which new employees will eventually reach full scale. It left intact the 100-mile day, except that the basic "day" will go up in increments of two miles each year for the life of the agreement. Earlier, Amtrak won an eight-hour-day provision for certain operations; the best the freight railroads could do was that modest increase in mileage for a "day."

The BRAC agreement went somewhat further. It provided for greater flexibility for railroads operating in the electronic era. Significantly, it reflected BRAC's recognition of the potential in intermodal operations, with intermodal terminal positions to be rated for new hires at 75% of present rates and with new employees to be brought in at 75% of those new rates.

Ironically, the UTU agreement was once rejected in a referendum, apparently because of a misunderstanding as to how firemen's jobs would be eliminated, while the BRAC agreement was overwhelmingly approved in a membership vote the first time around.

One agreement still protected employees in an obsolete craft, while the other recognized the need to bring scales more into line with competitive reality. The whole affair recalled a comment made many years ago by a union vice president, to the effect that his union had enough to worry about without being overly concerned with "unborn generations."

The irony is that the comment was made by a UTU vice president, from the union that has given ground so grudgingly in the whole fireman-off dispute, backing the former Brotherhood of Locomotive Firemen & Enginemen in the battle which began in 1959 and fighting to maintain the position after the four-union merger which created UTU a decade later.

The UTU and BRAC agreements run into 1988. Presumably agreements with other rail unions will have a like life-span.

The question is, the questions are, what happens then? Will it be business-as-usual again? Can railroads afford to have it be business-as-usual again?

In order to be competitive from a labor-cost standpoint, there are certain things that railroads need.

One is the elimination of the caboose from most

if not all operations. The new agreement with UTU provides greater freedom for carriers to run unit trains and trains that are predominantly intermodal without a caboose, but that freedom should be expanded.

A second is that in most circumstances a two-man train crew should become the standard. Local freight trains, peddlers, probably need extra personnel because of the switching involved. But through freight trains, operating between terminals, can run quite nicely with an engineer and a conductor.

A third is that still more flexibility is needed in BRAC's domain in order to take maximum advantage of the opportunities presented by the electronic era.

A fourth is that the whole nature of train dispatching and control has to change, in the labor context, whether control comes via satellite transmissions or by closer-to-the-ground electronics.

A fifth is that maintenance of both plant and equipment will have to be made less costly. In maintenance-of-way, that means not just more mechanization but more automation of the sort pioneered by Southern. In equipment maintenance, that means transition to the composite mechanic, the skilled employee who can do the whole job; it also means the end to contract restrictions which may require use of employees represented by three or four different crafts to handle a task that one employee could do.

Rail labor cannot be expected to respond in a positive way to these needs, based upon history.

But interesting things have been happening within labor's ranks, and they are not limited to the moderate concessions contained in the UTU and BRAC agreements.

UTU is now publicly saying that it believes that a single rail union would serve labor's purposes best.

BRAC has proposed the creation of a railroad department within the AFL-CIO.

Neither of these developments is likely to take place soon, especially since UTU has withdrawn from the federation, citing "irreconcilable differences," which included disputes over the organizing of Amtrak employees and the organizing of short line workers. But it is encouraging in a sense at least that the two largest rail unions are both thinking in terms of consolidation in one form or another.

At some point, too, with employment declining and costs of union operation rising, more of the industry's smaller unions will have to think about affiliation with bigger organizations. And at some point, those employees whose rail divisions are but a tiny part of a larger union—the Machinists, Electricians and Sheet Metal Workers, for example—may realize that their fortunes could be better protected if they were members of "a" union rather than being appendages to unions whose major interests lie elsewhere.

It has been said many times that the main reasons for productivity increases in railroading have come because railroads were willing to make capital investments which, in most recent years, have exceeded retained earnings.

Railroads are capital intensive.

To an even greater extent, they have been labor-intensive.

Railroad employees, meanwhile, have job protection that employees in few other industries can claim.

Railroad unions are insulated, in a way, each union with its own fiefdom, each union with its hierarchy of officers. Even the union created in a big merger, UTU, is still a union fragmented; the only way the merger could have taken place was for each of the four amalgamating organizations to retain automony of craft and the result has been a lot less than what a strong union leader would want in terms of his being able to manage a labor organization.

It is not fair to blame rail labor organizations for all the problems that have faced and still face the railroad industry.

It is not fair to say that if there were no unions, trunk line railroads would immediately fare a lot better.

It is not fair to say that if rail management had been able to get its way in 1959 with the "management shall have the unilateral right to..." notices, railroad fortunes would be just that today.

Over the years, rail management has made its share of blunders, and it is far from perfect today.

Rail management failures have not been uncommon, and the list is not limited to Penn Central or, with the help of the Interstate Commerce Commission, Rock Island.

Rail management, for the most part, however, has been competent and it has tried.

One longtime industry observer has said that the people who run today's railroads could never have built them. But that borders on being a cheap shot, considering that the builders didn't have to contend with union work rules regulation.

Management today knows what's happening, perhaps in a greater sense than it did before deregulation.

Rail labor, too, seems also to know what's happening, though it is far more reluctant to move as rapidly as it should to acknowledge the changes that have been and are taking place in the transportation marketplace.

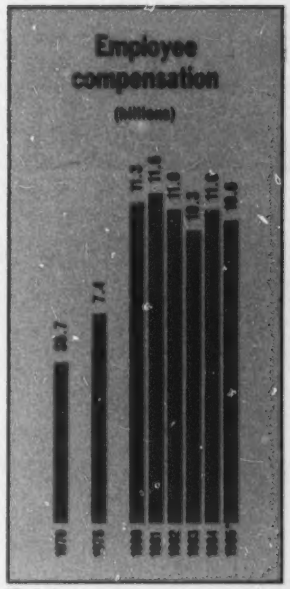
Still, there are a number of encouraging factors.

Burlington Northern has won union agreement for two-man crew operation of intermodal trains on two of its regions where opportunity is great for running short, fast piggyback trains. Other roads have won similar agreements for lesser operations.

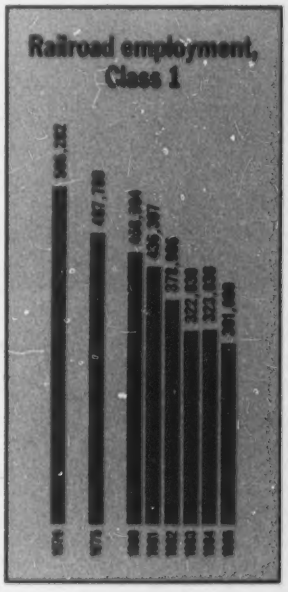
Santa Fe made a point in running the RoadRailer test, taking a strike and letting the unions plead for legal relief.

BRAC appears to know what's going on. So does UTU at the national level. Smaller unions would seem to have to take their lead from the two big unions; now that the two major organizations have settled, it makes sense to realize that they will not take kindly to seeing thousands of their people out of work because some tiny organization balks and sets up a picket line.

It is not a perfect world, and it won't be. But it does seem that rail management and rail labor are coming to a common point—a recognition of the need for improved productivity. ■



*Preliminary



Pennsylvania's 150-mile Allegheny Railroad, ex-Conrail, is owned by Hammermill Paper Co. but its biggest customer is a refinery. Kent Patterson

Here come the short lines

The railroad map is changing fast and dramatically as Class I roads spin off lines that short-line operators can run more profitably, mainly due to a-day's-pay-for-a-day's-work rules.

By FRANK MALONE,
Associate Editor

Fostered first by bankruptcies and then by deregulation, the flow of Class I segments into small new railroads has been strong since the late 1970s. It may soon become a flood.

Set for mid-year is the biggest spinoff announced so far, 824 miles of Chicago & North Western track to be operated as the Dakota, Minnesota & Eastern. It will become the 20th newly created or expanded small railroad operating more than 100 miles of line.

These roads operate over about 6,800 miles of line (including trackage rights), which is about one-twentieth the size of the Class I network. With annual operating revenues of more than $30 million, four claim Class II status. One of the newest, Chicago Central & Pacific, expects to come within sighting distance of the $88-million Class I threshold. Far more numerous are the new carriers whose operating scope is under 100 miles.

Unlike most traditional members of the American Short Line Railroad Association, the new breed are not belt or industry switching lines. Nor are they "paper" roads owned by big carriers, shells for equipment lessors, or corporate captives limited to their owners' traffic.

By and large, they're authentic for-profit movers of freight in areas where the big carriers can no longer operate economically. Preferring to be known as regional or small railroads, many new operators shun the term "short line."

"Some of these you can't even call small railroads," says Harvey A. Levine, Association of American Railroads vice president-economics and finance. He suggests "feeder" as more fitting in many cases.

In cooperation with the American Short Line Railroad Association, the AAR is striving to compile and maintain basic data on the new carriers. Levine is leading an AAR effort to produce by late 1986 a 31-chapter tome on non-class I's. Besides identifying and describing them, the book will cover procedures for start-up; the industrial, regulatory, and economic factors of their development; and the elements that sometimes contribute to failure. The book also will analyze the 75 to 100 carriers that Levine says have come into being since the Staggers Rail Act of 1980 was passed.

Levine puts the total of non-Class-I's at well over 400 and their share of rail line operated at well over 10%. As of mid-May, ASLRA members totaled 288, most of them Class III's.

Also tracking the small roads is a man who runs one, Edward A. Lewis, general manager of the 92-mile Lamoille Valley in Vermont. He's the author of the *American Short Line Railway Guide*, published by Kalmbach and now undergoing a third revision. In May, Lewis estimated the total of all types at 420.

Estimates of total share of industry revenue run as high as 10% or close to $3 billion. This will become clearer as the AAR encourages at least the larger of the new breed to report their carloadings. AAR staff recently estimated that their carload counters were missing 3,000 to 4,000 cars a week.

• **No easy road to riches.** Reporting is not always the first concern of new operators who face start-up problems that can last two or three years. With limited traffic bases, small railroads can be deeply hurt when local business conditions deteriorate. Good examples are Farm Belt carriers.

Even when volume is strong, factors not related to business conditions can cause far greater trouble than for a Class I. One example is the flooding in northwestern California that shut down the Eureka Southern for several weeks earlier this year. Another is the insurance-rate surge that caused several Michigan carriers to suspend operations for a while in May. Further clouding the outlook is the large amount of debt incurred by some new owners.

"None of the lines in our state is making anyone rich," says a Wisconsin Transportation Department representative. Nonetheless, in relation to the number of new lines formed, relatively few have failed. "Those that have gone out of business never should have been there in the first place," says one short-line operator.

That's because many entrants were there for the wrong reasons and without the skills to confront the realities of railroading. "We've run through the railfans with no business acu-

men and we're now seeing much smarter managers," says an attorney working on line rationalization for a major carrier. A few operators' primary business will remain leasing, such as one who says: "If all our cars came home at one time we'd need seven more miles of track."

Generally, however, serious entrepreneurs with bottom-line motives are moving in, many from Class I management positions.

Sharing the motives but not the background is John E. Haley, president and 58.5% owner of Chicago Central, which late last year started operations on the former Illinois Central Gulf line between Chicago and western Iowa. Haley is a former Air Force pilot whose business experience has been in real estate. "I'm not a rail buff," he says. He also owns the Cedar Valley, another ex-ICG line in Iowa.

CC is the first of the new breed to offer dedicated intermodal service. This reflects Haley's determination that most new business will come from Interstate 80 across Iowa. He has also been chasing grain off the roads.

• **"The economics are different."** The trend toward new carriers is expected to accelerate as big railroads continue to recognize their limitations. "Because price is so volatile," says John Hall, Burlington Northern assistant vice president-marketing and planning, "we find it harder and harder to stay in touch with our smaller shippers and to respond fast enough to their needs to stay competitive with trucks. Short lines do certain things better than we do, especially in being flexible in service."

"All the major trunk lines are looking at themselves as wholesalers," says Gary E. Landrio, Allegheny Railroad general manager. "That means a dramatic change in the way the rail industry operates."

"The economics are different for short lines," says Don Byran, deputy secretary for passenger and freight service in the Pennsylvania Transportation Department, which helped to establish the Allegheny. "The short line operators are better configured to pay for the service. And their service is individualized and tailored to customers."

The main reason is freedom from costly and constrictive national labor agreements. Most new railroads have no unions. Those with unions have agreements different from those of the Class I's. They run trains with fewer crew members, most of whom are paid by the hour and many of whom perform other tasks when not moving freight.

Only a radical change in big-carrier labor conditions could squelch the rise of new carriers, most analysts of the phenomenon believe. Even with lower labor costs, big carriers might choose to specialize in high-volume movements over main corridors. The emergence of a host of small carriers could prove that, so long as deregulation prevails, a railroad can't effectively be both a line-haul carrier and gatherer/deliverer.

• **Changing the rail map.** What's shaping up, says Thomas M. Minard, a Chicago consultant helping lenders to find new-railroad opportunities, "could be the down-sizing of most Class I carriers by at least half or more of today's main-line mileage."

Beside moving freight, some new regional railroads will offer contract maintenance services at costs lower than those of big carriers, Minard says. "As the Class I's phase out ownership of rolling stock, a number of these regional railroads will become key bases for shipper and private fleet owners...In many cases, the regional railroad will replace the Class I as the originating and terminating carrier, even where lines involve considerable merchandise tonnage and unit train service."

"Short lines will proliferate and change the rail map in a very significant way," says Darius Gaskins, Burlington Northern president and chief operating officer. His company's first entry in what he sees as a major decentralization of the railroad industry will be the 139-mile Arkansas & Missouri. "This isn't the last one," a BN spokesman says. The company won't say how much more will go on the block, but outside estimates go as high as 10,000 miles.

Another big contributor will be CSX, with unconfirmed estimates running as high as 2,000 miles. The company acknowledges 450 miles so far identified as saleable to new operators, but with care. "We want the new owners to operate satisfactorily, work well with their communities, and really promote and preserve rail traffic," says Harold Snyder, CSX Transportation officer in charge of line sales.

Also boosting supply will be the Southern Pacific Santa Fe Railroad. No estimate is available for lines to be shed after merger, but Jack Edwards, SP senior vice president-marketing and sales, told ASLRA members last month that SP alone would offer up to 8,000 miles.

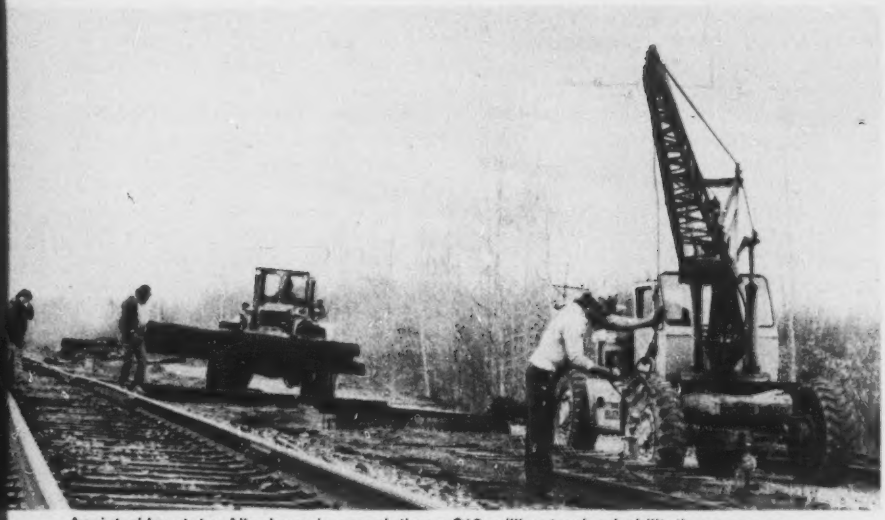
Announcing a sale that may lead to formation of the Dakota, Minnesota & Eastern by July 1, James R. Wolfe, CNW Corp. chairman, said recently: "We have other such sales under active consideration." A spokesman, however, could not provide an estimate of how many more miles C&NW wants to cast off.

One railroad with a firm figure for trackage still to be sold is Illinois Central Gulf. This former 9,200-mile railroad was down to 4,034 miles on May 6, following sale of 50.69 miles of track between Browns, Ill., and West Henderson, Ky., to the Indiana Hi-Rail Corp. for $1.95 million. About 1,000 miles remained on the block. Of the 20 new railroads with 100 miles or more of track, ICG has accounted for six. Much of the ICG trackage still for sale lies in routes linking Chicago with St. Louis and Kansas City. In May, the 91-mile Chicago, South Shore & South Bend, under new ownership since late 1984, emerged as a possible buyer. The deal would transform CSS&SB into a regional carrier 500% larger than before.

New two-man crew prepares to board Allegheny eastbound freight at North Timberland, Pa.
Kent Patterson

• **Helping the newcomers.** Bracing for the next wave of spinoffs by Class I roads are members of numerous state transportation departments. One of them is Paul C. Heitmann, director of the Wisconsin DOT's railroads and harbors bureau. He's also head of a National Conference of State Railway Officials task force on short lines. The group is building a data base that will help states to evaluate prospective operators.

"When a community is being promised ev-



Assisted by state, Allegheny is completing a $10-million track rehabilitation program.

Kent Patterson

erything, somebody has to be able to review the proposals with objectivity," says Heitmann. Updated regularly with information on revenues, carloads and maintenance, the data base would also give states better ability to anticipate problems after new owners take over. "Maybe we'll be able to do something before an operator files a Chapter Eleven application," says Heitmann. "At least, we can avoid surprises."

Wisconsin, Michigan and Illinois, among other states, have seen failures, generally rooted in near-panic reaction to perceived disaster as major carriers such as Penn Central, Rock Island, and Milwaukee Road collapsed. Aided by federal funds, some states rushed to buy lines and subsidize new, and often unqualified, operators.

As federal support has dwindled, operating subsidies have virtually disappeared. States that still own trackage hope to sell it. Most now concentrate on capital grants for track rehabilitation, largely without federal aid.

Among states hardest hit by big-road collapse was Pennsylvania, where two early new operators also collapsed. The two were not state-aided. Not one of 15 state-supported lines has failed, says Don Bryan.

"We resisted the impulse to save all the lines being abandoned, and forced local decisions to be made on the basis of viability," Bryan says. "What we have now is a program that really is the survival-of-the-fittest kind with an appropriate level of public support. And it's working."

One beneficiary is the Maryland & Pennsylvania, a 25-mile line owned by Emons Industries. The state is providing 80% of the funds for track upgrading. "Business is good and we're excited about the prospects," says Alfred P. Smith, Emons vice president-rail operations. "We're making a fair buck with a strong traffic base. We'd like to own perhaps five medium-sized railroads." Emons also owns the all-coal West Virginia Northern.

Allegheny purchased 90 new log cars from Greenville to handle owner Hammermill's traffic.

Kent Patterson

• **The Allegheny story.** Also benefiting from Pennsylvania's program is the Allegheny, which will complete a $10-million track rehabilitation by year's end. In operation since September 1985 on former Conrail trackage, the railroad offers service over 110 miles five days a week and over its other 40 miles once or twice a week.

Allegheny's owner is Hammermill Paper Co. The route reaches within 25 miles of where 80% of the wood originates to feed Hammermill's Erie pulp and paper mill. Winding through rugged northwestern Pennsylvania, the rail line was considered crucial to Hammermill's operation. The company looked at alternative shipping costs, and, says H. Leroy Weidner, corporate transportation director, "What we saw without rail access to our factory at Erie was disaster."

This is one of the few new short lines to have bought new equipment: 90 log cars built by Greenville. "They're the biggest log cars in the United States," says Gary Landrio, whose railroad experience is extensive. "There wasn't anything already available that was big enough for our needs."

Foreseeing $4 million in revenue this year, Landrio points out that Hammermill is not the biggest user. Providing more carloads is United Refinery Co. which produces various chemicals. Another important commodity is coal.

Hammermill needs the railroad, but not as a drain on finances. Thus, the carrier functions as a profit center. "They let me run the railroad," says Landrio, "and we can go after other business if it will make money for the owner."

The Allegheny has no labor agreements nor craft distinctions. The workday is eight hours. "Basically," says Landrio, "everybody is treated the same. We all have the same benefits, right from the president to the track maintainers."

• **Two-man crews, no cabooses.** Another non-union newcomer is the Iowa Interstate (IAIR), which since October 1984 has been providing service on 552 miles of former Rock Island trackage between Omaha and Chicago (including 90 miles of rights). There are two-man crews except where switching requires three men. There are no cabooses, except on the trackage-rights segment.

"We've created rates of pay, work conditions, and a benefits package that essentially treats people in quite a respectable manner," says Harry S. Meislahn, president. He formerly was ICG assistant vice president-corporate planning and development. IAIR's chairman and chief executive officer is Paul H. Banner, former Rock Island executive vice president.

Despite lower labor costs, the railroad still doesn't make money. "We predicted a sub-

New (or expanded) railroads: The top 20

	MILES OPERATED*	ESTIMATED ANNUAL REVENUE	GENERAL OFFICE	FORMER OWNER	MAJOR COMMODITY
1. Dakota, Minnesota Eastern**	980	$50M	—	CNW	Grain
2. Chicago Central & Pacific	772	$80M	Waterloo, Ia.	ICG	Grain
3. Gulf & Mississippi	713	$30M	Columbus, Miss.	ICG	Pulp, chips, paper
4. Iowa Interstate	552	$15M	Evanston, Ill.	RI	Varied
5. Tuscola & Saginaw Bay	537	$3M	Vassar, Mich.	CR/AA	Sand
6. MidSouth	474	$60M	Jackson, Miss.	ICG	Lumber, pulp, wood, paper
7. Kyle	420	$8M	Phillipsburg, KS.	RI	Grain
8. Detroit & Mackinac	400	$6M	Tawas City, Mich.	CR	Paper
9. Escanaba & Lake Superior	342	$1M-$5M	Wells, Mich.	Mil	Forest products
10. Paducah & Louisville**	309	$10M-$50M	Paducah, Ky.	ICG	Coal
11. Eureka Southern	168	$1M-$3M	Eureka, Cal.	SP	Lumber, lumber products
12. Allegheny	150	$4M	Erie, Pa.	CR	Wood, wood products, chemicals
13. Wisconsin & Southern	147	$1M-$2M	Horicon, Wis.	Mil	Canned goods
14. Iowa Northern	142	$1M-$2M	Chicago	RI	Grain
15. Minnesota Valley	141	$665,000	Morton, Minn.	CNW	Grain, kaolin
16. Arkansas & Missouri**	139	$5M	Springdale, Ark.	BN	Varied
17. Bay Colony	122	$1M-$2M	Lexington, Mass.	CR	Salt, lumber, coal
18. Maryland & Delaware	119	$1M	Federalsburg, Md.	CR	Grain
19. Indiana Rail Road	117	$5M	Indianapolis	ICG	Coal
20. Cedar Valley	107	$1M	Osage, Ia.	ICG	Grain

*Includes trackage rights **Pending

These carriers are ranked according to miles operated as of May 15. In some cases, because of trackage rights, more miles are operated than are owned. Conversely, a few carriers owning more than 100 miles are not listed because not all of their trackage was in operation. The list includes two traditional short lines that greatly expanded with acquisition of segments abandoned by other roads: Detroit & Mackinac, which doubled its size, and Escanaba & Lake Superior, which quadrupled its mileage. The 537-mile Tuscola & Saginaw Bay was a 44-mile short line when it ran its first train in 1977.

stantial deficit for the first year," says Meislahn. "We expect to break even this year and to be solidly profitable next year."

The railroad moves steel, coal, scrap, grain, lumber, food products, fertilizer, grain mill products, and piggyback merchandise. About 50% of this traffic comes from IAIR's owners, which form the Heartland Rail Corp.

Rehabilitation to raise maximum speed to 40 mph will be 70% complete by year's end. To finance this work, Heartland obtained a $6.2-million Federal Railroad Administration loan.

Largely because of new marketing efforts, IAIR is recording steady monthly increases in revenue, says Meislahn, with new business coming from customers in the railroad's territory, not from those of other railroads crossing Iowa.

Some new traffic is coming from trucks. One example is nitrogen fertilizer moving from a Kaiser Chemical plant in Illinois to destinations in Iowa and Nebraska. Other railroads share the traffic through a rate scaled to allow the commodity to go anywhere on their systems. That allows the shipper to penetrate new markets. "Kaiser had not used rail before," says Dennis E. Schaffer, IAIR marketing vice president.

Another breakthrough is IAIR's Blue Island lumber reload center on Chicago's southwest side. Stemming from a view of intermodal as more than piggyback, this "modified team track" arrangement involves rail delivery of lumber, plywood and wallboard from the Northwest and Canada, storage by IAIR, and distribution by wholesalers' trucks. The center also handles steel and bagged salt.

• **Taking traffic from I-70.** Two-man crews with nontraditional labor conditions helped to make profitable another big segment of the former Rock Island right from takeover. This is the 420-mile line between Kansas City and northeastern Colorado owned by Kyle Railways.

About half of the railroad's employees are members of the United Transportation Union but with a "non-restrictive agreement tailored to the property," says Mark Schenewerk, general manager. Last year's carloadings, 80% grain, were up nearly 15% over the previous year's.

Labor flexibility combined with grain-marketing expertise, says Schenewerk, "to determine what it would take to take this traffic off Interstate 70." By fall, the entire line will have been restored to 40-mph maximum speed. The railroad will celebrate with a Labor Day excursion.

"We think this is a growth sector of the railroad industry," says Victor Ryerson, legal counsel for Kyle Railways. "We know this business. It's kind of like setting back the clock historically and doing things that the railroads haven't been able to do for many years."

Also claiming favorable labor agreements is the MidSouth, which started operation on 418 miles of ex-ICG track in April (*RA*, May, p. 23). "If you say anything about our railroad," says Edward L. Moyers, president, "I hope that you'll say that we've enjoyed an excellent working relationship with the unions. The only reason I ask you to say that is

that it's true." MidSouth deploys three-man crews only where needed. Its non-operating work classification is flexible.

With experience on ICG and the small Peoria & Pekin Union, Moyers is bullish on the new-railroad industry. "I see these railroads as dynamic parts of the areas where they operate," he says. "They're reversing a trend of losing touch and are becoming more a part of the industrial world."

MidSouth annual revenues will be $60 million "plus," Moyers says. Commodities include lumber and wood products; pulp, paper and allied products; and chemicals. Track improvement this year will include installation of 58,000 new crossties and 100 miles of surfacing involving 50,000 tons of new ballast. Employees number about 350.

• **Wisconsin winner.** Already enjoying rebuilt track is Wisconsin & Southern, none of whose 18 employees belongs to a union. Operating 147 miles of former Milwaukee Road line, this southeastern Wisconsin carrier has entered "a pivotal year," says James J. Malloy, general manager and an experienced short liner. Major deals pending in May could cause a significant increase in traffic for a railroad that has learned how to live without aid from its owner or the state.

Because of the poor car-leasing market, parent Northbrook Corp., which also owns the Upper Merion & Plymouth in Pennsylvania, has not aided W&S since early 1983. What's more, the railroad completed a three-year track rehabilitation so efficiently that it refunded to the state $60,000 of a capital grant. Operating since 1980, W&S has never received an operating subsidy.

Currently the main commodity is canned goods, but the $1-million-revenue railroad is diversifying by seeking trans-load business from industries ten to 20 miles from its route. Some of that traffic will come from a warehouse for which ground was broken April 30. Though first-quarter traffic was weaker than first-quarter-1985's, the outlook for all of 1986 is positive. "April was the best April in our history," says Malloy.

Also surviving by diversifying is the Minnesota Valley, operator since 1983 of 141 miles of former C&NW trackage. "If we were dependent on grain like we were two years ago, we'd have problems," says Richard S. Shaw, general manager.

With two-man crews and no cabooses, MV moves fertilizer and canned goods in addition to grain. It also moves kaolin clay, of which a large deposit lies in the railroad's central Minnesota territory. This could eventually account for more than 50% of MV revenues. "Mixed traffic is the key," says Shaw, whose experience includes having helped to double the size of Michigan's Detroit & Mackinac through acquisition of Conrail trackage.

It's not always possible, however, to diversify the traffic base. It's hard especially in the very agricultural areas where branch lines have become economic burdens for big railroads. Yet those areas need good bulk transport for grain. The survival of short lines in such locales may well depend on greater public recognition of their value, says John Gohmann, Iowa Northern president.

"There is a future and a need for rail service in agriculture," Gohmann says. "It is important for preservation of the existing economic base, even in these depressionary times, and for industrial development. This is something that federal and state legislators and policy makers must take into consideration in dealing with the farm crisis and attempting to stimulate recovery."

Heeding that message are South Dakotans led by U.S. Senator Larry Pressler, who coordinated a year-long effort to preserve rail service through formation of the Dakota, Minnesota, & Eastern. "The local reaction has been tremendously positive," a Pressler aide says. Pressler is a member of the Senate Commerce, Science and Transportation Committee, which will soon hold hearings on the new railroad phenomenon.

Importantly involved in the DM&E spinoff is L.B. Foster, which will buy the trackage from C&NW, retain a yet to be determined share of ownership, and hire an operator. Foster already owns about 20% of the Gulf & Mississippi, and plans to take part in further regional carrier projects.■

CHECK IT OUT!

MANY COMPANIES REIMBURSE EMPLOYEES WHO TAKE COURSES TO IMPROVE THEIR ON THE JOB PERFORMANCE

☑ Railway Educational Bureau Programs are approved for tuition reimbursement. Check with your company. We are fully licensed and accredited.

☑ The Railway Educational Bureau is the proven leader in training railroad personnel. Over 200,000 industry personnel have taken our courses.

☑ Railway Educational Bureau Courses help you work smarter. As one graduate put it, *"The Bureau has been an essential key to open the doors of opportunity. . ."*. Start earning your diploma today.

☑ Railway Educational Bureau Courses give you the satisfaction of knowing that you know. You learn at your own pace and you learn the subjects you select. You design your own program.

FOR FAST ACTION CALL TOLL FREE: 1-800-228-9670
Monday — Friday 8 A.M. to 4 P.M. Central Time

☐ Check here and we will mail you our 1986 catalog so you can select the training program which will best suit your needs.

MAIL TO:

The Railway Educational Bureau • 1809 Capitol Avenue • Omaha, NE 68102

Name _____

Company _____

Address _____

City _____ State _____ Zip _____